GENERAL SYNOD

Additional Technical Note to accompany GS2330A

Executive Summary

This is a further technical note in relation to Private Member's Motion on clergy pensions, prepared by the Church of England Pensions Board ("the Board") as Trustee and Administrator of the Church of England Funded Pensions Scheme ("CEFPS", commonly called the 'clergy pension scheme'). It is to be read alongside the other GS2330 papers (pubished in November) and offers further information for Synod members to consider in relation to this motion.

Given the delay of the PMM from last November's Group of Sessions to February's the Board felt it would be helpful to use this time to commision a broad estimate of the potential contribution rates/costs of increasing target benefits for future service within the CEFPS. The Archbishops' Council kindly agreed to fund this high-level assessment to inform the Synod debate and this paper summarises the findings.

While any increase in benefits would be expected to lead to higher contribution rates, all other things being equal, market conditions have changed considerably since late 2022. As a result, the future cost of providing pensions benefits is lower now than it has been for much of the last 15 years.

The analysis suggests that in current market conditions, future service based on the original pre-2008 benefit structure would need a contribution rate of c38% of pensionable stipends on a technical provisions basis. Adjusting the benefit structure to simply target a higher level of benefit (2/3 NMS) but keeping other factors the same would need a contribution rate of c29% of pensionable stipends on a technical provisions basis. These contribution rates would of course change over time, depending on key indicators such as inflation, longevity, interest rates and investment returns. The paper concludes by revisiting a further alternative first discussed in the *Clergy Remuneration Review*.

Important note: this analysis has been prepared for information and illustration purposes only. The analysis estimates indicative contribution rates on specific assumptions of providing specific levels of benefits as at 31 December 2023. These rates would likely differ if considered at any other date and are not guaranteed.[i]

Background

1. The Board's role in relation to the CEFPS is to oversee (as Trustee) and administer the Scheme in line with the Scheme Rules approved by General Synod. This means that it is Synod, rather than the Board, that ultimately sets the benefits structure. The Board is also a source of pensions expertise on which the Church is able to draw. Previous changes to the Scheme Rules have been recommended by the Archbishops' Council as a representative of the Responsible Bodies which pay pension contributions into the scheme. The Diocesan Boards of Finance meet around 90% of contributions.

2. Technical Note GS2330T, prepared for the November 2023 Group of Sessions, sets out how the CEFPS works, a history of changes to the benefits structure over time, and a commentary on the motion from a technical perspective. The commentary noted that, while there would be a one-off implementation cost and that Synodical time would

be required, it would be comparatively straight forward to make changes to benefits relating to future service (particularly if such changes are beneficial for members). Retrospective changes would need much more detailed examination, be highly complicated, and would have unintended consequences, including personal tax charges.

3. The commentary also highlighted the important role that the National Minimum Stipend ("NMS") plays in determining starting pensions. While changes to the Rules are more visible, the behaviour of the NMS over time vs inflation is just as important. Although this note focuses on the benefit structure, the importance of the NMS factor should not be overlooked.

4. Finally, the technical note identified a potential further alternative which could be considered, and this is discussed further below.

Context: market conditions

5. When the CEFPS commenced in 1998, it operated to broadly the same benefit structure as the Church Commissioners-funded scheme for pre-1998 service. Benefits for future service were reduced in 2008 and 2011, in the wake of the Global Financial Crisis and concerns over affordability of the contributions needed to maintain the benefit structure and recover sizeable funding deficits. The changes are detailed in GS2330T and summarised in the table in the next section.

6. Up until late 2022, the 15 years since the Global Financial Crisis have been marked by a period of ultra-low interest rates, and gilt yields (the yield on government debt, which pension funds typically use for matching pensions in payment) well below historic norms. Lower yields mean the cost of buying a pension income stream is higher. This in turn increases the estimated cost of meeting pension promises.

7. Since late 2022 and through 2023, gilt yields have risen considerably. This helps reduce the actuarial cost of buying a pension income stream. (Readers may be familiar with the market for personal annuities, where annuities are finally providing more attractive incomes for the first time in years – it's the same effect.)

8. Therefore, while it would be reasonable to expect that any increase in benefits would drive an increased contribution rate, the scale of the increase is likely to be lower in today's market conditions than it would have been just two years ago. Of course, market conditions could change materially again in the future.

9. The contribution rate for the CEFPS from 1 April 2024 is 25% of pensionable stipends. (Pensionable stipends being based on the previous year's NMS, and thus lower than 25% of a typical incumbent's stipend.)

Assessing the potential contribution rates for increased benefits

10. The Scheme Actuary, LCP, has undertaken a high-level analysis of the indicative contribution rate that would have been required for future service as at 31 December 2023 on a technical provisions basis. This analysis has been prepared for illustrative purposes only and has been based on some broad but reasonable assumptions. For example, it draws on membership and other data from the last triennial valuation, assumes that the age profile of the membership remains constant (rather than aging)

and does not consider knock on factors such as any impact on the Scheme discount rate, which would itself have an effect on the contribution rate. The analysis considers future service only.

11. The key changes to benefit structures since CEFPS began in 1998 are summarised in the following table:

Benefit Level	Pre- 1 Jan 2008	1 Jan 2008 to 31 Dec 2010	From 1 Jan 2011 (current benefit level)
Normal Pension Age	65	65	68
Accrual Rate	1/37 of two thirds NMS	1/40 of two thirds of NMS	1/41½ of one half of NMS
Pension Increase	RPI capped at 5% pa	RPI capped at 3.5% pa	RPI capped at 3.5% pa

12. The PMM seeks "restoration of the clergy pension to its pre-2011 benefit level" and the analysis starts by considering this literally, with the following indicative results:

a) Future service on **pre-2008 terms**: contribution rate of **38%** of pensionable stipends on a technical provisions basis. This would be an incremental cost to Responsible Bodies of c£26m per annum.

b) Future service on **pre-2011 terms** (i.e. the 2008-2010 benefit structure): contribution rate of **34%** of pensionable stipends on a technical provisions basis. This would be an incremental cost to Responsible Bodies of c£18m per annum.

13. The Board also asked for a further scenario, which looks simply at changing the target benefit level back to two thirds of NMS, leaving the rest of the benefit structure unchanged. That gives this indicative result:

c) Future service on post-2011 terms save for targeting **2/3 NMS**: contribution rate of **29%** of pensionable stipends on a technical provisions basis. This would be a more modest incremental cost to Responsible Bodies of c£8m per annum.

14. While these are estimates at a point in time, drawing on assumptions carried forward from the last valuation, they do helpfully give an idea of the order of magnitude associated with different benefit structures. The actual Future Service cost should such changes be taken forward, could differ from the illustrative figures *in either direction*.

15. The Board would be happy to work with the Archbishops' Council and other bodies to develop this work further if the motion passes. There might also be other improvements to benefits which could be considered at the same time.[1]

A further alternative?

16. As discussed in GS2330T, there could be another way to target higher pension benefits for the same contribution rate. Pensions legislation in the UK is being broadened to permit the introduction of a different type of pension scheme. Known in the jargon as 'Collective Defined Contribution' ('CDC'). The *Clergy Remuneration*

---

[1] For example, the Clergy Remuneration Review recommended removal of the cap on maximum accrual which would benefit those clergy with very long service, who would be least likely to have pre-ordination private pensions.

Review (GS2247) drew attention to this new type of pension arrangement and the Board has continued to contribute to the industry thinking on this.

17. In such a scheme, contributions go into a collective fund which provides a monthly income in retirement to the member. The scheme targets a rate of increase in the monthly pension, which the Trustee would vary according to the scheme funding level.

18. This means that good investment performance is effectively returned to members through higher pension increases or higher targeted future increases. Poor experience would imply lower or in extremis no targeted increases. Consequently, the contribution rate can be fixed: it need not vary at each valuation and there is no concept of employer deficit recovery plans.

19. This flexibility also means that the same £ contribution in a CDC scheme can target a higher level of benefits than it would buy in a traditional Defined Benefit scheme (where the embedded guarantees and regulatory regime require a margin for prudence).

20. This has the potential to be very attractive. It could certainly deliver much better outcomes for those in Defined Contribution ('DC') schemes and therefore something of interest as a compelling alternative for 'lay' pensions in the future. In addition, while there would have to be full consideration of the trade-off between higher benefits and guarantees, CDC could offer an attractive proposition for clergy too, with the potential to target a substantially higher level of benefits at a fixed cost. It would also offer employers/Responsible Bodies the opportuntiy to lock in the current lower contributions for the long term.

21. The Board will continue to engage with policy makers and regulators as they develop proposals in this area.

John Ball, Chief Executive
on behalf of the Church of England Pensions Board

February 2024

Published by the General Synod of the Church of England
© The Archbishops' Council 2024

[i] Disclaimer: this paper has been produced for general guidance on matters of interest only, and does not constitute professional advice. It must not be reproduced except in full without written permission from The Church of England Pensions Board. No representation or warranty (express of implied) is given as to the accuracy or completeness of the information contained in this presentation, and The Church of England Pensions Board, its Trustees, employees, professional advisers, and agents do not accept or assume any responsibility or duty of care for any consequences of you or anyone else acting or refraining to act in reliance of the information herein.